

Exhibit C

The Secure Digital Music Initiative is a working group comprised of over [one hundred and fifty businesses and organizations with significant interests in the future of digital music](#) who are working to develop a specification for its secure distribution. The impetus for the group's mission is the exponential explosion in the popularity of the MP3 compression format, widely used to facilitate the transfer of both legal and illegal digital music files online. The recording industry has been distributing digital music in an unsecured format, the [compact disc](#), for well over a decade. The growth of the Internet and the development of high quality compression algorithms, like those employed by MP3, have caused the recording industry to seriously reconsider this strategy.

By incorporating a digital rights management system (DRM) into SDMI-compliant music releases, the music industry hopes to be able to regain control over how music is distributed (and used). According to the SDMI, its objective "is to develop technical specifications for securing music across all digital delivery platforms." However, many critics argue that SDMI's specifications have fallen far short of this goal, and a number of commentators have suggested that consumers will be left with a bewildering array of formats, utilizing different codecs and digital rights management systems. Chris Smith, the portable audio program manager at Creative Labs, suggests:

It's not going to be that good of a user experience if Creative and Diamond and Thomson and Matsushita all choose different DRMs and different codecs to implement . . . [a]nd it's not going to be a good experience if Universal, Warner, Sony, EMI, and BMG all decide on different DRM systems and codecs and file formats. It will be bedlam.

In July, 1999, SDMI released version 1.0 of its portable device standards ([pdf](#)). SDMI plans to implement its digital rights architecture in two phases. In Phase I, portable music players will incorporate a watermarking and tracking system, allowing the players to continue to support both secured and unsecured formats. Then, when record labels are ready to begin distributing music with encryption security built-in, a screening technology will signal to the portable device that it is time to upgrade its software to play Phase II encoded music.

Consumers will be able to decide whether to upgrade their devices to play Phase II enabled files. If consumers opt not to upgrade, they will still be able to play music files that are not SDMI-compliant, but they will not be able to play new releases coded with the Phase II specifications.

A watermarking scheme from Aris Technologies in Cambridge has been selected as the Phase I screening technology and transition signaler. "The ARIS technology was chosen after extensive testing for robustness and listening quality," ensuring that the watermark would be inaudible, says the [SDMI press release announcing the selection](#).

The Phase II specifications have yet to be selected. SDMI will make a formal "Call for Proposals for Phase 2 Screen Technology," sometime in the "near future."

Once Phase II technologies have been implemented, SDMI-compatible portable players will refuse to play pirated digital music files that are encoded with digital rights management information. Under the guidelines for the standard, a digital music file will be copy-able but future generations of the file cannot be reproduced, i.e. additional copies cannot be made from a what is already a copy of the original music file. The SDMI also hopes to structure the rights management architecture to provide marketers with considerable flexibility in determining what rights will be granted to consumers and what rights will be withheld. For example, a digital music file may be encoded to play for a limited duration, such as a three-

week trial period before a purchase is required, or the file may be bundled so as to allow for cost savings when purchased with other promotional merchandise.

SDMI General Information

[SDMI Homepage](#)

[SDMI Fact Sheet](#)

[SDMI Membership List](#) (Feb. 4, 2000)

SDMI Specifications

Guide to SDMI Portable Device Specification - Part 1, Version 1.0 ([pdf](#))

[SDMI Press Release, Aug. 9, 1999, "SDMI Identifies Audio Watermark Technology for Next Generation Portable Devices for Digital Music"](#)

[SDMI Press Release, Nov. 12, 1999, "SDMI Approves Technology Selection and Trademark License Agreement"](#)

[SDMI, Dec. 3, 1999, "Anticipated Technical Functionality of Phase 2 Screening of Digital Audio Content"](#)

The RIAA on SDMI

[SDMI Information](#) from the RIAA

[SDMI FAQ](#) from the RIAA

[RIAA Press Release, July 13, 1999, SDMI Publishes Open Standard For Portable Devices](#)

SDMI Articles: Coverage and Criticism

[Electronic Engineering Times, Feb. 21, 2000, "SDMI Tackles Phase Two"](#)

[Wired News, Aug. 9, 1999, "SDMI Chooses Tracking Tech"](#)

[Lynn Burke, Wired News, Jan. 20, 2000 "SDMI Alternative Secures Partner"](#)

[Paul Fiesta and Sandeep Junnarker, CNET News.com, Dec. 15, 1998, "RIAA Taking On Music Downloads"](#)

[Christopher Jones, Wired News, Nov. 18, 1999, "SDMI: Divide or Conquer?"](#)

[Chris Oakes, Wired News, Feb. 3, 2000, "Copy-Protected CDs Taken Back"](#)

[Chris Oakes, Wired News, Jan. 29, 2000, "Stamping Out Pirated Tunes"](#)

[Junko Yoshida, Electronic Engineering Times, August 16, 1999, "SDMI picks Aris scheme"](#)

[Junko Yoshida, TechWeb News, Sept. 23, 1999, "SDMI-Internet Players To Miss Holiday Season."](#)